

Good Afternoon Sen. Dow, Rep. Tipping and members of the Joint Standing Committee on Taxation. My name is Linda Caprara, I am the Senior Government Relations Specialist with the Maine State Chamber of Commerce and a resident of Winthrop. We are here to testify in support of L.D. 1655, "An Act to Update References to the United States Internal Revenue Code of 1986 as Contained in the Maine Revised Statutes," Sponsor: Sen. Dana Dow-Lincoln.

As you know, on December 22<sup>nd</sup>, the first major overhaul of the federal tax system since 1986 became law. There was substantial tax relief for businesses and individuals in this bill. We feel the changes as a whole will help reduce the tax burden for families, make companies that operate in the US more competitive in the global economy, and ultimately encourage US companies operating overseas to bring investment back to the US with the transition from a worldwide to a territorial tax system. It is estimated that this will bring an annual benefit to Maine taxpayers of approximately \$1 billion with \$500 million going to individuals, \$200 million to Maine pass through entities and \$300 million to corporations. Now, Maine must consider whether to conform at all, in part, or in whole to the changes in the federal code.

The Governor has indicated he is in favor of conformity that does not raise taxes on Mainers or Maine businesses. We support that position wholeheartedly. In the areas where conformity with the federal code would result in potential tax increases, L.D. 1655 proposes to put in place provisions that would hold harmless Maine businesses or individuals. We urge this Committee to strongly consider conforming Maine's income tax laws to the Federal code as outlined in L.D. 1655 for several reasons.

First, with respect to individual income taxes, the federal code would eliminate the personal exemption and instead increase the standard

deduction. The elimination of the personal exemption would result in a \$233 million increase for Maine families. Since Maine already increased its standard deduction, L.D. 1655 proposes to replicate the personal exemption and create a zero percent tax bracket and create a child care credit to make up for the elimination.

Second, conforming to the Federal code makes it easier for Maine business taxpayers from an administrative standpoint because it keeps things simple. Specifically, with the new federal “bonus depreciation” provision that would allow businesses to depreciate the entire value of an asset in the first year. Conforming to the federal code would only require businesses to keep one not two sets of books for depreciations schedules. Allowing businesses to depreciate the asset all at once frees up cash that could be used to make additional investments in equipment or workers. Tax increases that might be realized by conforming to the federal code with respect to the deductions of interest expense and the treatment of net operating losses are offset in the bill by a reduction in the corporate income tax rate from 8.93% to 8.33%, mitigating the effect on Maine companies.

Again, we urge you to vote ought to pass on L.D. 1655. I would be happy to address any questions.